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MARKETS.DWPI,EPAB,JPAB,USPT.	8909
SECONDARY.DWPI,EPAB,JPAB,USPT.	534780
SEC.DWPI,EPAB,JPAB,USPT.	259660
((PRIMARY ADJ4 MARKET) SAME (SECONDARY ADJ4 MARKET)).USPT,JPAB,EPAB,DWPI.	7

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USPT,JPAB,EPAB,DWPI	primary market	48	L6
USPT,JPAB,EPAB,DWPI	primary adj4 market same secondary adj4 market	7	L5
USPT,JPAB,EPAB,DWPI	primary same secondary same market	295	L4
USPT,JPAB,EPAB,DWPI	(collectible or antiques) and l1	1	L3
USPT,JPAB,EPAB,DWPI	initial adj2 (sale or purchase) same primary market	0	L2
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1. An introduction to the collectible sportscard market; *O Brien, Thomas J; Gramling, Lawrence J*; **Managerial Finance**, Bradford; 1995; Vol. 21, Iss. 6; pg. 47, 17 pgs
2. The Retail Ad Revolution and Newspapers; *Garneau, George*; **Editor & Publisher**, New York; Nov 7, 1992; Vol. 125, Iss. 45; pg. 24, 2 pgs

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(primary and secondary)w/6 market and (collectibles or cards

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Bartering

Business Credit; New York; Jul/Aug 1992; Sweeney, Robert B.; Lukawitz, James M.;

Volume:	94
Issue:	7
Start Page:	33
ISSN:	08970181
Subject Terms:	Impacts Financial statements Credit management Characteristics Barter Accounting procedures Impacts Financial statements Credit management Characteristics Barter Accounting procedures
Classification Codes:	9190: *US* 4120: *Accounting policies % procedures* 3200: *Credit management*
Geographic Names:	US US

Abstract:
Rather than sell merchandise at prices below wholesale, some companies barter or exchange each others' goods or services. Most bartering is undertaken with the assistance of barter exchange companies who use either the clearinghouse system or the reciprocal trade system. A clearinghouse accepts a client's merchandise in exchange for trade credits, requiring little cash outlay, but the merchandise available may be limited. The reciprocal trade sysem is used by companies called reciprocal trade companies (RTC), which act as a brokers. Dealings with an RTC require large amounts of cash. There are 3 ways in which a company may record a barter exchange: 1. the conservative approach, 2. the ***primary market*** *sale approach, and 3. the* ***secondary market*** *price approach. Trade accounts receivable should be classified as a prepaid asset and included as a current asset in computing the working capital and the current ratio. However, it should be excluded in the computation of the quick or acid test ratio.*

Full Text:

The painful effects of the recession have forced many companies to search for creative ways to use idle capacity or to move excess inventory in order to conserve cash. One creative method that many companies have rediscovered is the age-old method of bartering.

Rather than sell merchandise at prices below wholesale, companies barter or exchange each others' goods or services. While bartering has clearly been beneficial for many companies, it can easily be abused. Care must be taken in examining the financial statement of firms engaged in this type of transaction.

As a credit manager, what should you know about bartering and what impact can it have on your customers' statements? First, you need to know how bartering, which has become a multi-billion dollar business, works in the current environment. Rather than simple bartering, such as exchanging a dozen eggs for two loaves of bread, considerably more sophisticated barter systems have emerged. Second, you need to know how barter transactions are reflected in financial statements, and what adjustments, if any, should be made in evaluations prior to authorizing or extending credit.

IF IT'S WORTH SOMETHING, YOU CAN TRADE IT

Today you can trade almost anything from dental services to yachts. Goods which have been bartered include office furniture, vehicles, art, and computers. Services provided through bartering include hotel accommodations, country club memberships, advertising, accounting services, and baseball tickets.

In a renowned case of bartering, the Los Angeles Olympic Organizing Committee swapped licensing rights to the logo and mascot during the 1984 Olympics for various goods and services: United Airlines traded airline tickets, General Motors exchanged the use of 500 Buick automobiles, and Fugi Films provided 250,000 rolls of film and processing.

THE TWO BASIC BARTERING SYSTEMS

Most bartering is undertaken with the assistance of barter exchange companies. These exchange companies generally use one of two basic bartering systems--the clearinghouse system or the reciprocal trade system. There are some fundamental, significant differences in how these two systems work.

CLEARINGHOUSE COMPANIES REQUIRE LITTLE CASH

A clearinghouse accepts a client's merchandise in exchange for trade credits, sometimes called trade dollars. The clearinghouse also charges the client a small transaction fee. The client can use the trade credits to obtain merchandise from the exchange company's warehouse, again, being charged a small transaction fee. A constraint of this approach is that clients can only use their trade credits to obtain merchandise carried in the exchange company's inventory. This inventory is acquired from transactions with other exchange company clients. Dealings with clearinghouse companies generally require little cash outlay on the part of the client; however, the merchandise available may be limited.

RTCs ACT AS BROKERS

The reciprocal trade system is used by companies called reciprocal trade companies (RTC). An RTC acts as a broker. As with the clearinghouse company, the client exchanges merchandise for trade credits or trade dollars. But, a major difference occurs when the client seeks to use trade credits. Rather than being restricted to only the merchandise carried in the RTC's inventory, the client simply places an order with the RTC indicating the lowest price at which it can obtain the merchandise.

The RTC acquires the merchandise at a price lower than the best price available to the client. It then "sells" the product to the client at a price equal to the client's best available price. The client pays for the merchandise with cash equal to the RTC outlay, using trade credits to make up the difference.

Dealings within an RTC require larger amounts of cash compared to dealings with a clearinghouse. In both cases, the client is able to dispose of its merchandise at a real value in excess of the selling price it

would obtain in a secondary or heavily discounted market.

The pitfalls of bartering are the potential limited available items from a clearinghouse and the large cash outlays still necessary within the RTC. In both cases, it should be noted that trade credits have a limited life of generally three years, so they must be exercised in that time frame to avoid becoming worthless.

EXAMINE THE BOOKS OF COMPANIES THAT BARTER

How are the barter transactions recorded in company books, and what care must be exercised in analyzing statements of companies engaged in bartering?

The use of these barter exchanges can provide economic benefit to a company when excess or obsolete goods or services are traded. A company generally receives trade credits equal to the selling price of the merchandise in the primary market. This is greatly in excess of what the company could garner in a secondary market. These trade dollars are redeemed dollar for dollar for merchandise when goods or services are acquired from a clearinghouse, or for a reduction in purchase price when the services of an RTC are used. Thus, exclusive of the transaction costs, the company can receive benefits almost equal to selling in its normal channels for items which could only be sold in a depressed market otherwise.

ALTERNATIVE ONE: THE CONSERVATIVE APPROACH

In the accounting records, there are three ways in which a company may record a barter exchange. The conservative approach, recommended for television syndicators under generally accepted accounting guidelines, defers all revenue until an asset of value is received. Using this approach, the company receiving trade credits for its merchandise records these credits as a current asset, writes off the merchandise it disposed of at cost, and records the difference as deferred revenue. Revenue is then "earned" or recognized as the trade credits are used to acquire goods and services.

For example, assume Company A has merchandise which, if sold in the primary market, would generate $150,000 in sales dollars, but would only generate $125,000 if sold in the secondary or discounted market. This merchandise is carried on the company's books at its cost of $120,000. Since Company A can not sell the goods in its primary market, it considers bartering. A barter company, Company B, offers Company A $150,000 in trade credits for this merchandise. If Company A enters the barter transaction, it records the transaction by recording a trade credit receivable of $150,000. It writes off the merchandise at the cost of $120,000 and reflects the difference, $30,000, as deferred revenues. If $100,000 in trade credits are used during the next period to acquire an 18-wheel truck, $20,000 in revenue is recognized, reducing the deferred revenue to $10,000. The truck is carried at $100,000 and trade credits receivable are reduced to $50,000.

ALTERNATIVE TWO: PRIMARY MARKET SALE CLONE

A second alternative treats the exchange identical to the sale in the primary market, since the asset that the company will ultimately receive would have cost the client company an equivalent dollar amount. With this approach, revenue is recognized at the inception of the exchange and the "cashing in" of the trade credits is treated the same as the collection of an ordinary accounts receivable.

Using the previous data to illustrate, the trade credits receivable would be recorded at $150,000, the cost of traded merchandise, $120,000, would be written off, and revenue of $30,000 would be

recognized immediately. If $100,000 in trade credits were then used to acquire a truck, the trade would be recorded at $100,000 and the trade credits receivable would be reduced to $50,000.

ALTERNATIVE THREE: SECONDARY MARKET PRICE USED

The third alternative is similar to the second, except that the secondary market price of the client's merchandise is used. This approach recognizes that the opportunity cost of the asset given up is the secondary market price, since a sale in the primary market is preferable to a barter exchange.

Using the previous example, assume that the merchandise which cost $120,000 could be sold in the secondary market for $125,000. Using the third approach, trade credits receivable would be shown at $125,000, the $120,000 cost of the merchandise would be written off, and $5,000 would be recognized as revenue.

All three approaches are acceptable accounting procedures. While the third alternative may be preferred from an accrual accounting perspective, the first alternative gives the best matching with cash flows. Since barter transactions represent non-monetary exchanges, companies engaged in bartering will explain which procedure they used in the footnotes to their financial statements.

WHAT EFFECT DOES THIS HAVE ON ME?

All of this has a large impact on someone engaged in granting credit. First, revenue recognition is not a primary concern; of greater significance is the amount of cash flow. The trade credits or trade dollars received by companies engaged in bartering are recorded as receivables and, as such, are classified as current assets. Current assets are generally viewed as cash generating items, either directly, as in the case of trade accounts receivables, or indirectly, as with prepaid items, which actually reduce cash outflows in future periods. It is important to separate trade credit receivables from trade accounts receivable for that reason.

Many feel that barter exchanges are inferior to sales in the primary market, since a company in most cases would readily sell all of its goods or services in that market rather than go to the secondary market. Thus, companies which are heavily engaged in bartering are doing so because the primary market is no longer available.

The company may be engaging in barter exchanges for both economic and cosmetic accounting reasons. By recording these exchanges in the same manner as ordinary sales, a company may be attempting to hide weaknesses in sales with the corresponding cash flow problems that result. How a company classifies trade credits receivable is important. These receivables could be classified as traditional receivables, and thus be considered a quick asset, or they could be considered a prepaid asset and excluded from quick assets.

Trade accounts receivable should be classified as a prepaid asset, not as a traditional receivable, since trade credits do not generate cash inflow. Rather, trade credits reduce a company's future cash outlays.

The source of trade credits should also be considered. Transactions through an clearinghouse generate trade credits to be used to acquire goods or services which would normally be acquired by cash outlays. Thus, these trade credits reduce cash outflows.

Transactions with an RTC require significant outflows of cash in addition to the use of trade credits.

Thus, these trade credits reduce cash outflows, but to a lesser extent than in transactions with clearinghouses.

Additionally, there is a greater likelihood that the trade credits could become worthless since they can he used only to accompany significant cash outlays for goods or services. If such cash resources are unavailable, the trade credits can not be used and have to be written off as worthless. Thus, classifying trade credits receivable from RTCs as prepaid assets is even more important than in the case of clearinghouse transactions.

When a company has excess or obsolete merchandise, the use of bartering can make good economic sense. But, caution must be taken in interpreting the results of such transactions as reflected in the value placed on the trade credits, the fact that these credits do not generate cash inflow, and the fact that the trade credits may not be usable in the case of RTC transactions if the company's cash position prevents the exercise of these trade credits. As long as a company is not heavily engaged in these non-cash producing transactions and proper treatment of the asset acquired is undertaken, the use of bartering should not be of major concern in determining a company's credit worthiness.

By classifying trade credits receivable as a prepaid asset, it will be included as a current asset in computing the working capital and the current ratio. However, it should be excluded in the computation of the quick or acid test ratio.

Robert B. Sweeney is a professor of accounting and James M. Lukawitz is an assistant professor of accounting, Fogelman College of Business and Economics, Memphis State University, Memphis, Tenn.